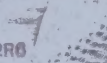


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2002 ANNUAL REPORT

CORPORATE PROFILE Novitas Energy Ltd. (TSX symbol - NOS) is a junior oil and gas producer that develops and produces oil and natural gas in the Provinces of Alberta and Saskatchewan.

The Company's business strategy is to strive to maximize shareholder value by applying long-term growth objectives. The Company's primary objective is to combine its oil and gas production technical strengths with planned business strategies to generate above average results and returns for our shareholders.

Contents Highlights 1 Report to Shareholders 2 Review of Operations 3 Property Discussions 6 Management's Discussion and Analysis 7 Management's Responsibility for Financial Statements 14 Auditors' Report 14 Financial Statements 15 Notes to the Financial Statements 18 Corporate Information IBC

Notice of Annual Meeting

The Annual Meeting of Shareholders will be held on Monday, June 16, 2003, in the Lakeview Endrooms at the Westin Hotel, 320 Fourth Avenue S.W., Calgary, Alberta, at 10:00 a.m. (Calgary time).

HIGHLIGHTS**2002****2001****Financial** (\$000, except \$ per share)

Revenue - oil and gas (net of royalties)	3,977	531
Cash Flow from Operations	2,092	66
Per Share Diluted	0.06	0.01
Net Loss	(24)	(92)
Per Share Diluted	(0.00)	(0.00)
Capital Expenditures and Acquisitions (net)	4,750	8,457
Outstanding Debt	5,227	3,146
Shareholders' Equity	5,150	5,020
Shares Outstanding (weighted average) (000's)	35,444	16,296

Operations

Oil and Liquids (barrels per day)	421	160
Average Price (\$ per barrel)	\$31.18	\$18.84
Natural Gas (MCF per day)	161	46
Average Price (\$ per MCF)	\$3.90	\$2.82

Reserves (established)

Oil and Liquids (barrels in 000's)	2,082	2,027
Natural Gas (MCF in 000's)	5,249	249

Novitas Energy Ltd. was incorporated on June 15, 2001. Therefore, the comparative figures for 2001 represent the period June 15 to December 31, 2001.

REPORT TO SHAREHOLDERS

It is with pleasure that we present to our shareholders the Company's operational and financial results for the year ending December 31, 2002. Novitas had a successful first full year of operations with substantial increases in production, revenue, cash flow and a reduction in net loss.

Company Objectives

The Company will continue to grow by acquisitions of producing oil and gas properties, by optimizing production and reducing operating costs for acquired properties, and by drilling prospects that are developed internally or through farmout arrangements with other companies. We anticipate that almost all of our activity will be in the Provinces of Alberta and Saskatchewan.

Operations

In October 2001 and January 2002 the Company was successful in acquiring two companies whose producing properties are located mainly in the Shaunavon area of Southwestern Saskatchewan. Total production from the properties acquired is currently approximately 600 barrels of oil equivalent per day (BOE/D) consisting mainly of 22° API crude oil. Since the acquisitions crude oil prices have substantially increased, we have been successful in reducing operating costs, and have drilled an additional 4 (3.77 net) oil wells and 2 (1.86 net) dry holes increasing our producing well count in this area to 49 oil wells and increasing our production by approximately 30 percent from the production levels that existed at the time of acquisition.

The Company plans further development of its existing land position as well as obtaining additional prospective land in the Shaunavon area. Also, the Company has established additional areas in West Central Alberta and Saskatchewan that will be drilled in 2003.

Proven reserves have increased to approximately 2,883,000 BOE's at December 31, 2002, compared to 2,069,000 at December 31, 2001. The Company has financed the 2002 drill programs and acquisitions from its bank line of credit and has not had to do any equity issues.

Financial

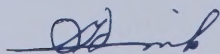
Oil and natural gas revenue (net of royalties) was \$3,977,000 in 2002 compared to \$531,000 for the approximate 2001 six month period. Cash flow from operations increased to \$2,092,000 compared to \$66,000 for the shorter 2001 period. Net loss for 2002 was \$24,000 (2001 loss of \$92,000). The Company anticipates that 2003 will continue with its strong growth pattern.

Outlook

The Company is presently evaluating and assessing rework programs on existing producing wells and continues with additional drilling on these lands. The Company has also been active in acquiring interests in non-producing lands and will be drilling exploration prospects on these lands during 2003. We will be attempting to grow the Company through further acquisitions and by drilling on internally developed or farm-in prospects from independent third parties.

We wish to thank all of our shareholders for their support.

Submitted on behalf of the Board of Directors,



George F. Fink
President, CEO and Director

REVIEW OF OPERATIONS

Reserves

The Company engaged the services of an independent engineering firm to prepare a reserve evaluation with an effective date of January 1, 2003. The reserve valuation included approximately 96 percent of the Company's property. The reserve estimates and values as of December 31, 2001 were determined by management. The reserves are located in the Provinces of Saskatchewan and Alberta. The majority of the Company's production is comprised of sweet 22° API crude. The Company's main oil producing area is located in the Shaunavon area of Saskatchewan. Oil and natural gas established reserve estimates at December 31, 2002, before royalties, are as follows:

	Crude Oil and Liquids		Natural Gas		Probable
	Proven Developed Producing (MBbls)	Probable	Proven Developed Producing	Developed Non-producing (MMCF)	
December 31, 2001	2,027	—	249	—	
Acquisitions	274	—	—	—	—
Drilling additions	280	—	757	4,317	—
Disposals	(71)	—	(9)	—	—
Production	(154)	—	(59)	—	—
Evaluation adjustments	(348)	74	(6)	—	—
December 31, 2002	2,008	74	932	4,317	—
Evaluated Reserves	1,959	74	739	4,317	—
Life index (years)	13.1		15.9		

ESTIMATED PRESENT WORTH OF FUTURE NET PRODUCTION REVENUE

(\$ thousands)	Undiscounted	Discounted at the rate of		
		10%	15%	20%
Proven developed producing	32,619	15,277	13,971	12,445
Proven developed non-producing	14,881	4,093	3,553	2,960
Probable reserves, risked at 50%	1,201	281	234	184
Proven and probable reserves at December 31, 2002	48,701	19,651	17,758	15,589
Proven and probable reserves at December 31, 2001	26,376	10,360	7,982	6,489
Percentage increase	84.6	89.7	122.5	140.2

Commodity prices used, prior to adjustments for quality and transportation, in the above calculations of reserves are as follows:

<i>Year</i>	<i>Cromer Medium 29.3 API (Cdn \$ per barrel)</i>	<i>Alberta Index Plantgate (Cdn \$ per MCF)</i>	<i>Propane (Cdn \$ per barrel)</i>	<i>Butane (Cdn \$ per barrel)</i>	<i>Pentane (Cdn \$ per barrel)</i>
2003	33.93	5.72	21.53	24.35	39.36
2004	30.82	5.21	19.50	22.06	35.66
2005	28.22	4.60	18.05	20.42	33.00
2006	28.78	4.27	18.36	20.77	33.57
2007	29.89	4.42	18.99	21.48	34.72
2008	30.38	4.48	19.28	21.81	35.25
2009	31.48	4.67	19.93	22.54	36.44
2010	32.00	4.75	20.24	22.89	37.00
2011	32.52	4.84	20.55	23.24	37.57
2012	33.05	4.94	20.87	23.60	38.16
2013	33.60	5.03	21.19	23.97	38.75
2014	34.15	5.12	21.52	24.34	39.35

Crude oil, natural gas and liquid prices escalate at 1.5% per year thereafter.

Production

The following table provides a summary of average production volumes from our producing areas.

	<i>2002</i>		<i>2001</i>	
	<i>Oil and NGL (Bbls/day)</i>	<i>Natural Gas (MCF/day)</i>	<i>Oil and NGL (Bbls/day)</i>	<i>Natural Gas (MCF/day)</i>
Shaunavon, Saskatchewan	383	–	130	–
Various non operated interests, Alberta	36	160	15	40
Pembina, Alberta	2	1	15	6
	421	161	160	46

Land Holdings

The Company's holdings of petroleum and natural gas leases and rights are as follows:

	2002		2001	
	Gross Acres	Net Acres	Gross Acres	Net Acres
Saskatchewan	17,893	16,838	17,733	15,718
Alberta	7,080	1,352	5,160	968
	24,973	18,190	22,893	16,686

Petroleum and Natural Gas Capital Expenditures

The following table summarizes petroleum and natural gas capital expenditures incurred by the Company on acquisitions, land, seismic, exploration and development drilling and production facilities for the period:

Periods ended December 31	2002	2001
Property acquisition (see below)	\$3,172,696	\$10,348,759
Property dispositions	(401,718)	—
Drilling	2,921,417	—
Land costs	240,763	362,020
Seismic	99,571	37,957
Facility costs	120,700	25,056
Net petroleum and natural gas capital expenditures	\$6,153,429	\$10,773,792

The Company acquired a private company at a cash cost of \$1,964,000 (including \$99,000 paid as a deposit in 2001). Due to accounting requirements, the property acquired through the acquisition of the private company was required to be recorded at an accounting cost of \$3,272,000 with a future tax liability of \$1,220,000.

Drilling History

The following table summarizes the Company's gross and net drilling activity and success:

	2002		2002		Total	
	Development Gross	Net	Exploratory Gross	Net	Gross	Net
Crude Oil	3	2.84	—	—	3	2.84
Natural Gas	—	—	3	1.36	3	1.36
Dry	1	.93	1	1.00	2	1.93
Total	4	3.77	4	2.36	8	6.13
Success rate	75%	75%	75%	58%	75%	69%

No wells were drilled during the period June 15 to December 31, 2001

PROPERTY DISCUSSIONS

The Company's major producing properties are located in the Shaunavon area of southwest Saskatchewan. Novitas continues to acquire exploration lands in the west central area of Saskatchewan and has acquired exploration lands in the west central area of Alberta.

Southwest Saskatchewan

Novitas operates its' major producing property which consists of approximately 49 producing wells in the Shaunavon area of southwest Saskatchewan where the Company's working interest is predominately 93 percent. The properties are located in the Whitemud and Chambery fields and produce 22° API crude oil from mainly the upper Shaunavon formation, with some production from the lower Shaunavon formation, located at a depth of approximately 5,000 feet. A portion of the property is being produced under waterflood with the majority of the property still on primary production. The primary production areas are being monitored on an ongoing basis to determine if waterflood programs should be initiated. The wells in the Shaunavon area generally have a very long life and stable low decline production profile after a short period of higher decline when a new well initially commences production.

Novitas assumed operatorship of the property in mid October, 2001 and has been conducting an aggressive review of operating costs and assessing production enhancement and development opportunities. The Company has completed initial well optimization projects and facility enhancement projects which allowed for further development. The Company conducted a development drilling program that was successful in significantly increasing production and reserves by expanding existing pools. Novitas has identified additional opportunities to add production and reserves by extending existing pools and will continue to drill these targets.

The Company is taking the geological information learned from developing our existing land base and using it to develop other exploration prospects in the area.

Exploration Lands

Novitas has been working on developing a varied portfolio of exploration opportunities that could significantly increase production and reserves while maintaining risk at acceptable levels. The Company has acquired lower risk lands with shallow gas potential in west central Saskatchewan and higher risk lands with deep gas potential in west central Alberta. Both these prospect were drilled in 2002.

The Company participated in drilling two deep gas wells (.358 net) in west central Alberta resulting in two sweet gas wells. Both wells were successfully completed for gas production in secondary targets. The first well was placed on production in August and is currently producing at 75 mcf/d net to Novitas, the second well will be placed on production from two zones early in the second quarter of 2003. The area is being re-evaluated prior to participating in any further drilling.

A successful 100 percent owned shallow gas well has been drilled and completed in west central Saskatchewan. Production tests are encouraging. Novitas has been able to increase its land base in the area and the Company plans further drilling in the area after we have solidified our land position. Further drilling is required to justify the cost of a six mile pipeline to tie in the gas production from this remote area.

Novitas will be continuing to focus on acquiring, exploring, developing and producing new properties that have long term value.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This report is a review of the operations, current financial position and outlook for the Company and should be read in conjunction with the audited financial statements for the fiscal year ended December 31, 2002, together with the notes related thereto.

Quarterly Comparisons

	2002				2001	
	4th	3rd	2nd	1st	2nd	1st
Financial (\$000, except \$ per share)						
Revenue - oil and gas (net of royalties)	\$ 1,212	\$ 1,039	\$ 898	\$ 828	\$ 472	\$ 59
Cash Flow from Operations	633	594	456	409	45	21
Per Share Diluted	0.02	0.02	0.01	0.01	0	0
Net Earnings (Loss)	(249)	152	106	(33)	(97)	5
Per Share Diluted	(0.01)	0.01	0	(0)	(0)	0
Capital Expenditures and Acquisitions (net)	1,448	1,097	416	1,789	7,805	652
Outstanding Bank Loan	5,227	4,742	4,647	4,704	3,146	705
Shareholders' Equity	5,150	5,386	5,233	5,127	5,020	5,134
Operations						
Oil and Liquids (barrels per day)	479	407	392	405	329	15
Natural Gas (MCF per day)	217	209	112	105	100	10

Production

The Company's average production of oil and natural gas liquids was 421 barrels per day in 2002 compared to 160 barrels per day in 2001. Natural gas production during 2002 averaged 161 MCF per day compared to 46 MCF per day in 2001. The Company commenced operations on June 15, 2001, with an acquisition of a producing oil and natural gas property from its former parent company Bonterra Energy Corp. Production from this property was approximately 17 barrels of oil equivalent (BOE) per day using a 6 to 1 conversion of natural gas to oil equivalent.

Effective October 1, 2001, the Company acquired a private oil and gas company. As a result of this acquisition production increased to approximately 330 BOE per day. On January 3, 2002, the Company acquired another private oil and gas company. This acquisition resulted in a further increase in production of approximately 100 BOE per day.

During 2002 the Company completed drilling of 8 gross (6.13 net) wells. Three (2.84 net) of these wells were drilled in the Shaunavon area of Saskatchewan and were producing approximately 125 barrels of 22° API crude oil as of December 31, 2002. The Company also completed two (1.16 net) natural gas wells. One (.16 net) was producing as of December 31, 2002. The second well is completed and tested but is currently waiting for the construction of a pipeline. Novitas anticipates that the well should be on production prior to the end of 2003.

A third gas well (.2 net) was drilled in 2002 but is currently being completed by the operator. The Company anticipates that the well should be on production by June 2003. Two (1.93 net) other prospective wells, one (.93 net) crude oil and one natural gas, were drilled in 2002 but were dry and abandoned.

Based on the success obtained in 2002, the Company subsequent to year end, drilled a further three (2.84 net) crude oil wells. Two (1.91 net) were successful and on production in February 2003 at an initial combined rate of approximately 100 barrels per day. A third well (.93 net) was dry and abandoned.

Revenue

Gross revenue from oil and natural gas sales increased to \$5,053,609 in 2002 from \$632,065 in the preceding fiscal period. The average price received for crude oil and natural gas liquids was \$31.18 (2001 - \$18.84) Cdn. per barrel and \$3.90 (2001 - \$2.82) Cdn. per MCF of natural gas.

Crude oil production consists of 22° API crude oil which trades at a lower fluctuating differential to Edmonton par crude oil prices. The degree of fluctuation was significant during 2002 ranging from over \$17 in early 2002 to less than \$6.00 during the summer months. Generally smaller spreads occur during the summer months as there is increased demand for heavier crude oil for asphalt.

Royalties

Royalties paid by the Company include both Crown royalties of \$666,048 (2001 - \$55,370) paid to the Provinces of Alberta and Saskatchewan and freehold and gross overriding royalties of \$410,784 (2001 - \$45,607). Crown royalties as a percentage of revenue increased due to the completion of two higher volume producing Shaunavon oil wells which have a higher Crown royalty rate than the other lower production wells. The Company is eligible for Alberta Crown Royalty rebates for Alberta production from its newly drilled wells in Alberta.

Production Costs

Production costs totalled \$1,403,338 in 2002 compared to \$325,204 in the approximately six-month

period ended December 31, 2001. On a BOE basis, production costs averaged \$8.58 (2001 - \$9.69). The decline is primarily attributable to the Company's January 3, 2002 acquisition which had operating costs in the \$2.50 to \$3.00 per barrel range.

The successful drilling of several high production rate wells in the Shaunavon area of Saskatchewan, upgrades to the Shaunavon facilities and development of the Company's natural gas prospects, should result in lower production costs on a BOE basis in 2003.

General and Administrative Expense

General and administrative expenses were \$253,493 or \$1.55 per BOE. This is an increase of \$159,897 over 2001 but a decline of \$1.24 per BOE. The prior fiscal period general and administrative costs included approximately \$50,000 in one time company start up costs. General and administrative costs consist primarily of operating salaries, management fee expenses (see below), annual report costs, and audit fees.

The Company has a management agreement with Comstate Resources Ltd. (Comstate) a wholly owned subsidiary of Bonterra Energy Income Trust (an entity with similar management). During 2002, the Company paid a management fee to Comstate for management services of \$5,000 per month plus five percent of before tax income. The management agreement can be cancelled by either party giving 30 days notice. If this agreement is cancelled Comstate will automatically be released from the guarantee it has provided to the Company's principle banker.

Interest Expense

Interest expense for 2002 was \$208,509 compared to \$54,454 for the preceding fiscal period. The Company financed approximately \$4 million of the \$9.24 million cost of the October 1, 2001 and January 3, 2002 acquisitions of two private companies. In addition, the Company incurred in excess of \$3 million of drilling, land and facility costs during the year. The excess of these costs above the Company's cash flow were financed through the Company's existing line of credit.

Interest rate charges by the company's banker during the period on the outstanding debt averaged 4.3 percent. The Company has the ability to use Bankers Acceptances (BA's) as part of its loan facility. Interest charges on BA's are generally one half percent lower than that charged on the general loan account.

Depletion, Depreciation, Future Site Restoration and Dry Hole Costs

The Company depletes its oil and natural gas intangible assets using the unit-of-production basis by field. For tangible assets such as well equipment, a life span of ten years is estimated and the related tangible costs are depreciated at one tenth of original cost per year. Provisions are made for future site

restoration based on management's estimation of abandonment requirements using current costs and amortized on a unit-of-production basis by field. For the fiscal year ending December 31, 2002, the Company expensed \$1,500,171 (2001 - \$236,295) for the above-described items.

Novitas follows the successful efforts method of accounting for petroleum and natural gas exploration and development costs. Under this method, the costs associated with dry holes are charged to operations. During 2002, the Company drilled two gross (1.93 net) wells that were dry and abandoned. Total expenses including land and seismic costs associated with these wells were \$389,573.

Income Taxes

Tax expense consists entirely of federal and provincial large corporation capital tax. On the acquisition of the private company's discussed above, Novitas received tax pools significantly lower than the price paid for the companies.

The Company has adopted the tax payable method of accounting for income taxes under which the income tax provision is based on the temporary differences in the accounts calculated using income tax rates expected to apply in the year in which the temporary difference will reverse. The liability on the balance sheet and the corresponding expense relates to temporary differences existing between the Company's book value of its assets and its remaining tax pools. As discussed above, the Company received tax pools significantly less than the acquisition costs for the companies, and as such had to record a sizable future income tax liability.

Tax pool balances at the end of 2002 totalled \$6,012,943 and consisted of the following pool balances:

	<i>Rate of Draw-down %</i>	
Undepreciated capital costs	25-30	\$1,298,471
Canadian oil and gas property expenses	10	2,710,092
Canadian development expenses	30	1,123,988
Canadian exploration expenses	100	800,548
Finance expenses	20	79,844
		\$6,012,943

Net Loss

Novitas incurred a net loss of \$23,966 in 2002 compared to \$92,376 in the previous fiscal period. The

2002 net loss was primarily due to dry hole costs of \$389,573 and provision for future taxes of \$193,855. The significantly large provision for future taxes was the result of an increase in the Company's effective tax rate resulting from an increased level of operations in Saskatchewan which has a higher corporate tax rate than Alberta.

The Company's adoption of the successful efforts method of accounting for its intangible oil and gas assets lends itself to increased volatility in the determination of net income as costs associated with unsuccessful wells are written off immediately instead of being capitalized and amortized over the life of other productive assets.

Continued strong commodity prices in 2003, continued development success and increased production volumes from our recently completed wells should result in the Company posting positive net income in 2003.

Cash Flow from Operations

Cash flow from operations for the fiscal year ending December 31, 2002 was \$2,092,309 (2001 - \$66,435). Increased cash flow was due to several factors including higher commodity prices, substantially increased production levels, and a full year of operations in 2002.

Late 2002 and early 2003 successes in drilling, which has resulted in approximately 250 barrels per day of additional production, and continued strong commodity prices should result in a further increase in 2003 cash flow. As previously discussed, however, fluctuations in the spread between heavy and light crude and world crude prices will play a significant role in determining the Company's 2003 cash flow.

Cash Netback

The following table illustrates the Company's cash netback:

<i>\$ per BOE</i>	<i>2002</i>	<i>2001</i>
Production volumes (BOE)	163,509	33,570
Gross production revenue	\$30.72	\$18.83
Royalties	(6.59)	(3.01)
Field operating	(8.58)	(9.69)
Field netback	15.55	6.13
General and administrative	(1.55)	(2.79)
Interest and taxes	(1.44)	(1.65)
Cash netback	\$12.56	\$1.69

Liquidity and Capital Resources

The Company anticipates drilling several wells in the Shaunavon area and is actively acquiring additional prospective lands in the area. In addition, Novitas plans on drilling additional wells in other areas in Alberta and Saskatchewan on properties it has interests in and on farm-in lands. It is anticipated that the costs associated with the 2003 development and exploration programs will be funded out of cash flow and from the loan arrangement we have with our principal banker.

At December 31, 2002 the Company had bank debt of \$5,227,328 (2001 - \$3,145,654). The Company's credit facility at year-end consisted of a revolving line of credit of \$6,000,000 and carries an interest rate of one half percent above Canadian chartered bank prime.

The credit facility allows for borrowings by means of Bankers Acceptances (BA's). The effective interest rates of BA's are generally half a percentage point lower than that available under the normal credit facility. The Company attempts to maximize the amount of its credit facility used by financing with BA's to reduce overall interest costs. Collateral for the loan consists of a demand debenture providing a first floating charge over all of the Company's assets, and a general securities agreement. Comstate Resources Ltd. (Comstate) has guaranteed \$3,000,000 of this loan. In consideration for the guarantee the Company has entered into a management agreement whereby Comstate will provide all management services on a fee for service basis.

The Company provides a stock option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 3,538,000 shares of common stock. The exercise price of each option granted equals the market price of the Company's stock on the date of grant and the option's maximum term is five years. Options vest one-third each year for the first three years of the option term. A summary of the status of the Company's stock option plan as of December 31, 2002 and 2001, and changes during the periods ending on those dates is presented below:

	2002		2001	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Fixed Options				
Outstanding at beginning of year	2,274,000	\$ 0.15	—	\$ —
Options issued	135,000	0.55	2,274,000	0.15
Options exercised	(90,000)	(0.15)	—	—
Options expired	—	—	—	—
Options cancelled	(140,000)	(0.15)	—	—
Outstanding at end of year	2,179,000	\$0.17	2,274,000	\$0.15
Options exercisable at end of year	668,000	\$0.15	—	—

The following table summarizes information about fixed stock options outstanding at December 31, 2002:

<i>Range of Exercise Prices</i>	<i>Number Outstanding At 12/31/02</i>	<i>Options Outstanding</i>		<i>Number Exercisable At 12/31/02</i>	<i>Options Exercisable Weighted-Average Exercise Price</i>
		<i>Weighted-Average Remaining Contractual Life</i>	<i>Weighted-Average Exercise Price</i>		
\$0.15	2,044,000	3.75 years	\$0.15	668,000	\$0.15
\$0.55	135,000	3.1 years	\$0.55	—	—
\$0.15 - \$0.55	2,179,000	3.71 years	\$0.17	668,000	\$0.15

Business Prospects, Risks, and Outlooks

The resource industry operates with a great deal of risk. The most significant risks may come from oil and natural gas price swings, the uncertainty of finding new reserves from drilling programs or acquisitions, competition within the industry, and increasing environmental controls and regulations.

The prices received for crude oil are established by world market forces and for natural gas by forces within North America. Fluctuations in pricing can have extremely positive or negative effects on the Company's cash flow or in the value of its producing and non-producing oil and natural gas properties.

The Company presently attempts to minimize these risks by pursuing both oil and natural gas activities. The Company may sometimes elect to protect against price fluctuation by using commodity hedging. Currently the Company has no outstanding hedging agreements.

The Company operates its oil and natural gas interests in areas which have long life reserves; where it has the technical expertise to enhance production, control operating costs and to increase margins of profit.

Sensitivity Analysis

Sensitivity analysis, as estimated for 2003 follow:

	<i>Cash Flow</i>	<i>Cash Flow Per Share</i>
U.S. \$1.00 per barrel	\$162,000	\$0.004
Canadian \$0.10 per MCF	\$ 9,000	\$0.000
Change of Canadian \$0.01/U.S. \$ exchange rate	\$ 61,000	\$0.002

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of the statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgements and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

Deloitte & Touche LLP has been appointed by the shareholders to serve as the Company's external auditors. They have examined the financial statements and provided their auditors' report. The audit committee has reviewed these financial statements with management and the auditors, and has reported to the Board of Directors. The Board of Directors has approved the financial statements as presented in this annual report.



George F. Fink
President & CEO



Garth E. Schultz
Vice President, Finance

AUDITORS' REPORT

To the Shareholders of Novitas Energy Ltd.:

We have audited the balance sheets of Novitas Energy Ltd. as at December 31, 2002 and 2001 and the statements of loss and deficit and of cash flow for the year ended December 31, 2002 and for the period from incorporation, June 15, 2001, to December 31, 2001. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and 2001 and the results of its operations and its cash flow for the year ended December 31, 2002 and for the period from incorporation, June 15, 2001, to December 31, 2001 in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
March 26, 2003


Chartered Accountants

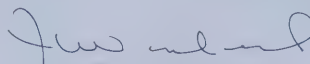
BALANCE SHEETS

<i>As at December 31 (Note 1)</i>	2002	2001
Assets		
Current		
Accounts receivable	\$ 881,947	\$ 386,627
Prepaid expenses	21,911	8,060
	903,858	394,687
Property and Equipment (Note 3)		
Property and equipment	16,524,476	10,773,792
Accumulated depletion and depreciation	(1,507,736)	(199,396)
Net property and equipment	15,016,740	10,574,396
	\$15,920,598	\$10,969,083
Liabilities		
Current		
Bank indebtedness	\$ 482,363	\$ 36,238
Accounts payable and accrued liabilities	1,021,522	396,810
Bank loan (Note 4)	5,227,328	3,145,654
	6,731,213	3,578,702
Future income tax liability (Note 7)	3,860,061	2,340,317
Future site restoration	179,709	29,577
	10,770,983	5,948,596
Shareholders' Equity		
Share capital (Note 5)	5,265,957	5,252,457
Excess of cost of petroleum and natural gas properties over related net book value of vendor corporation (Note 3)	-	(139,594)
Deficit	(116,342)	(92,376)
	5,149,615	5,020,487
	\$15,920,598	\$10,969,083

On behalf of the Board:



George F. Fink
Director



F. William Woodward
Director

STATEMENTS OF LOSS AND DEFICIT

<i>Periods ended December 31 (Note 1)</i>	2002	2001
Revenue		
Oil and gas sales, net of royalties of \$1,076,832 (2001 - \$100,977)	\$ 3,976,777	\$ 531,088
Production costs	(1,403,338)	(325,204)
Interest and other	8,198	9,601
	2,581,637	215,485
Expenses		
General and administrative	253,493	93,596
Interest on long-term debt	208,509	54,454
	462,002	148,050
Cash Flow From Operations Before		
Current Income Taxes	2,119,635	67,435
Loss on disposal of oil and gas property (Note 3)	32,676	—
Dry hole costs	389,573	—
Depletion, depreciation and future site restoration	1,500,171	236,295
Earnings (Loss) Before Income Taxes	197,215	(168,860)
Income Taxes (Recovery) (Note 7)		
Current	27,326	1,000
Future	193,855	(77,484)
	221,181	(76,484)
Net Loss For The Period	\$ (23,966)	\$ (92,376)
Deficit, Beginning of Period	(92,376)	—
Deficit, End of Period	\$ (116,342)	\$ (92,376)
Loss Per Share (Basic) (Note 2)	\$ (0)	\$ (0)
Loss Per Share (Diluted) (Note 2)	\$ (0)	\$ (0)

STATEMENTS OF CASH FLOW

<i>Periods ended December 31 (Note 1)</i>	2002	2001
<i>Operating Activities</i>		
Net loss for the period	\$ (23,966)	\$ (92,376)
Items not affecting cash		
Loss on disposal of oil and gas property (Note 3)	32,676	—
Dry hole costs	389,573	—
Depletion, depreciation and future site restoration	1,500,171	236,295
Future income taxes	193,855	(77,484)
<i>Cash flow from operations</i>	2,092,309	66,435
Change in non-cash operating working capital items		
Accounts receivable	(495,320)	(386,627)
Prepaid expenses	(13,851)	(8,060)
Accounts payable and accrued liabilities	624,712	396,810
	115,541	2,123
	2,207,850	68,558
<i>Financing Activities</i>		
Increase in long-term debt	2,081,674	3,145,654
Issue of common shares for cash	13,500	5,313,935
Share issue costs	—	(107,143)
	2,095,174	8,352,446
<i>Investing Activities</i>		
Property and equipment expenditures (Note 3)	(5,369,576)	(8,457,242)
Cash acquired on acquisition	504	—
Proceeds on disposal of property and equipment (Note 3)	619,923	—
	(4,749,149)	(8,457,242)
<i>Net Cash Outflow</i>	(446,125)	(36,238)
<i>Bank Indebtedness, Beginning of Period</i>	(36,238)	—
<i>Bank Indebtedness, End of Period</i>	\$ (482,363)	\$ (36,238)

NOTES TO THE FINANCIAL STATEMENTS

Periods ended December 31, 2002 and 2001 (Note 1)

1. INCORPORATION AND COMMENCEMENT OF OPERATIONS

The Company was incorporated in the Province of Alberta on June 15, 2001 and acquired its initial property on that date (see Note 3). The comparative figures in the financial statements represent the operations of the Company from that date to December 31, 2001.

2. SIGNIFICANT ACCOUNTING POLICIES

Measurement Uncertainty

The amounts recorded for depletion and depreciation of petroleum and natural gas property and equipment and for future site restoration and reclamation are based on estimates of petroleum and natural gas reserves and future costs. By their nature, these estimates are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

Petroleum and Natural Gas Properties and Related Equipment

The Company follows the successful efforts method of accounting for petroleum and natural gas properties and related equipment. Costs of acquiring unproved properties are capitalized. When property is found to contain proved reserves as determined by Company engineers, the related net book value is depleted on the unit-of-production basis, calculated by field. The costs of dry holes and abandoned properties are charged to operations. Geological costs, lease rentals and carrying costs are charged to income as incurred. Costs of drilling exploratory and development wells that result in additions to proved reserves are capitalized and depleted on the unit-of-production basis. Tangible equipment is depreciated on a straight-line basis over ten years.

Income Taxes

The Company follows the liability method of accounting for income taxes under which the income tax provision is based on the temporary differences in the accounts calculated using income tax rates expected to apply in the year in which the temporary differences will reverse.

Future Site Restoration

The Company provides for future site restoration and abandonment costs over the estimated production life of its property and equipment. Estimates of these amounts are based on the anticipated method and extent of site restoration using current costs and in accordance with existing legislation and industry practice. The annual charge is included with depletion, depreciation and future site restoration.

Stock-based Compensation Plan

The Company has a stock-based compensation plan, which is described in Note 5. No compensation

expense is recognized for these plans when stock options are issued to employees and directors at the prevailing market prices. Any consideration paid by service providers on the exercise of these options is recorded as share capital. For options issued after January 1, 2002, the fair values are determined and the impact on earnings if applicable is disclosed as pro forma information.

Revenue Recognition

Petroleum and natural gas sales are recognized when the commodities are delivered to purchasers.

Hedging

The Company uses derivative instruments to reduce its exposure to fluctuations in commodity prices and foreign exchange rates. Gains and losses on these contracts, all of which constitute effective hedges, are recognized as a component of oil and gas sales.

Joint Interest Operations

Significant portions of the Company's oil and gas operations are conducted with other parties and accordingly the financial statements reflect only the Company's proportionate interest in such activities.

Loss Per Common Share

Basic loss per share is computed by dividing earnings by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if options or warrants to purchase common shares were exercised. The treasury stock method is used to determine the dilutive effect of stock options and warrants, whereby proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

The number of shares used to calculate diluted loss per share for the period ended December 31, 2002 of 37,019,220 (2001-17,342,113) included the weighted average number of shares outstanding of 35,443,734 (2001-16,296,073) plus 1,575,486 (2001-1,046,040) shares related to the dilutive effect of stock options.

3. PROPERTY AND EQUIPMENT

	2002		2001	
	Cost	Accumulated Depletion and Depreciation	Cost	Accumulated Depletion and Depreciation
Undeveloped Land	\$ —	\$ —	\$ 362,020	\$ —
Petroleum and natural gas properties and related equipment	16,524,476	1,507,736	10,411,772	199,396
	\$16,524,476	\$ 1,507,736	\$10,773,792	\$ 199,396

The Company acquired petroleum and natural gas properties from its former parent company Bonterra Energy Corp. (Bonterra) effective June 15, 2001 for cash of \$650,000. As this transaction was conducted with a related party, the Company was required to record the oil and gas properties acquired at Bonterra's carrying value which was \$388,087. The difference of \$139,534 between the purchase price and the carrying value, net of future income taxes, was charged directly against shareholders' equity.

The Company purchased 100 percent of the outstanding shares of a private corporation for cash consideration of \$7,275,650. The acquisition was effective October 1, 2001 and the private company has been dissolved. The allocation of the purchase price based upon the fair value of the assets acquired and liabilities assumed was as follows:

Intangible assets	\$ 7,642,614
Tangible assets	2,220,821
Future income taxes	(2,587,785)
	<u>\$ 7,275,650</u>

On January 3, 2002, the Company acquired 100% of the outstanding shares of a private company for a cash payment of \$1,925,100. The determination of the purchase price of the acquisition and allocations to the net assets and liabilities of the acquired company based upon the fair value of the assets acquired and liabilities assumed was as follows:

Cash Consideration	\$1,925,100
Related Expenses and Fees	38,518
Total Purchase Price	<u>\$1,963,618</u>
Purchase Price Allocation	
Net Working Capital	\$ 98,434
Capital Assets	3,271,928
Long-term Debt	(186,281)
Future Income Taxes	(1,220,463)
Total Purchase Price	<u>\$1,963,618</u>

To facilitate the above transaction, the Company issued a letter of credit in the amount of \$1,845,100 to guarantee the purchase price subject to obtaining full shareholder consent of the private company. This letter of credit was not drawable until finalization of the purchase and sale agreement and must have been drawn prior to January 11, 2002. The letter of credit was drawn on January 3, 2002 as final payment for the acquisition.

The Company, effective February 1, 2002, sold to Bonterra the petroleum and natural gas property it purchased for its initial public offering. The property was no longer considered to be significant and was not in an area that the Company will be considering for future growth. Total consideration paid

was \$575,000 cash. The Company recorded the sale as a reversal of the original purchase and reported a loss on disposal of \$32,676.

During the periods no general and administrative expenses were capitalized.

At December 31, 2002, the estimated future site restoration costs to be accrued over the life of the remaining proved reserves are \$1,882,187 (2001 - \$1,736,312)

4. LONG-TERM DEBT

The Company has a long-term revolving credit facility of \$6,000,000. As at December 31, 2002 the Company had drawn under the facility \$5,227,328 (2001 - \$3,145,654). The terms of the credit facility provide that the loan is due on demand and is subject to annual review. The credit facility can be drawn by way of bank prime rate loan, banker acceptances (B/A's), letters of credit and letters of guarantee.

The interest rate on the prime rate loan is the bank's prime rate plus .50 percent. The interest rate on B/A's is the bank's B/A rate plus 1.75 percent. The letters of credit and guarantee are issued for a fee determined by the bank at the date of issue. The credit facility has no fixed payment requirements. Collateral for the loan consists of a demand debenture providing a first floating charge over all of the Company's assets, and a general securities agreement. Comstate Resources Ltd. (Comstate), a wholly owned subsidiary of Bonterra Energy Income Trust, an entity with common management, has guaranteed \$3,000,000 of this loan. In consideration for the guarantee the Company has entered into a management agreement whereby Comstate will provide all management services on a fee for service basis (see Note 6).

The Company has classified borrowing under its bank facility as a current liability as required by new guidance under the CICA's Emerging Issues Committee Abstract 122. It has been management's experience that these types of loans which are now required to be classified as a current liability are seldom called by principal bankers as long as all the terms and conditions of the loan are complied with. The bank loan as at December 31, 2001 has been restated to conform to current presentation.

Cash interest paid in the period for the above loan was \$208,509 (2001 - \$42,813).

5. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common shares without nominal or par value.

Issued

	2002		2001	
	Number	Amount	Number	Amount
Common Shares				
Balance, beginning of period	35,426,234	\$5,252,457	–	\$ –
Issued to parent on incorporation	–	–	10	2
Issued pursuant to initial public offering	–	–	35,426,224	5,313,934

Issued pursuant to Company stock				
option plan	90,000	13,500	–	–
Share issue costs	–	–	–	(107,143)
Future tax benefit of share issue costs	–	–	–	45,664
Balance, end of period	35,516,234	\$5,265,957	35,426,234	\$5,252,457

The Company provides a stock option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 3,538,000 shares of common stock. The exercise price of each option granted equals the market price of the Company's stock on the date of grant and the option's maximum term is five years. Options vest one-third each year for the first three years of the option term.

A summary of the status of the Company's stock option plan as of December 31, 2002 and 2001, and changes during the periods ending on those dates is presented below:

	2002		2001	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Fixed Options				
Outstanding at beginning of period	2,274,000	\$0.15	–	\$ –
Options granted	135,000	0.55	2,274,000	0.15
Options exercised	(90,000)	(0.15)	–	–
Options expired	–	–	–	–
Options cancelled	(140,000)	(0.15)	–	–
Outstanding at end of period	2,179,000	\$0.17	2,274,000	\$0.15
Options exercisable at end of period	668,000	\$0.15	–	–

The following table summarizes information about fixed stock options outstanding at December 31, 2002:

Range of Exercise Prices	Number Outstanding At 12/31/02	Options Outstanding		Options Exercisable	
		Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable At 12/31/02	Weighted-Average Exercise Price
\$0.15	2,044,000	3.75 years	\$0.15	668,000	\$0.15
\$0.55	135,000	3.1 years	\$0.55	–	–
\$0.15 - \$0.55	2,179,000	3.71 years	\$0.17	668,000	\$0.15

The Company accounts for its stock based compensation plan using intrinsic values. Under this method no costs are recognized in the financial statements for share options granted to employees and directors

when the options are issued at prevailing market prices. For fiscal years beginning on or after January 1, 2002, Canadian generally accepted accounting principles require disclosure of the impact on net earnings using the fair market value method for stock options issued on or after January 1, 2002. If the fair value method had been used, the Company's loss and loss per share would not be significantly different from those reported. The fair value of options granted has been estimated using the Black-Scholes option pricing model, assuming a risk free interest rate of 5.20%, expected volatility of 114%, and expected weighted average life of 3.75 years.

6. MANAGEMENT AGREEMENT

During 2002, the Company paid a management fee to Comstate for management services of \$5,000 per month plus five percent of before tax income. Total payments made during 2002 were \$73,300 (2001-\$18,000) and have been included in general and administrative expenses.

The Company also paid administrative fees on a per well basis to Comstate for the administration of its oil and gas properties. Total amount paid during 2002 was \$140,000 (2001-\$34,500). This amount, net of amounts related to joint venture partner interests, has been recorded in production costs.

7. INCOME TAXES

The Company has recorded a future income tax liability. The liability relates to the following temporary differences:

	2002 Amount	2001 Amount
Temporary differences related to assets and liabilities	\$3,896,663	\$2,471,612
Finance expense charged to shareholders' equity	(36,602)	(44,383)
Tax loss carry-forward	—	(86,912)
	<u>\$3,860,061</u>	<u>\$2,340,317</u>

Income tax expense varies from the amounts that would be computed by applying Canadian federal and provincial income tax rates as follows:

	2002 Amount	2001 Amount
Earnings (loss) before income taxes	\$197,215	\$ (168,860)
Combined federal and provincial income tax rates	45.44%	43.83%
Income tax provision calculated using statutory tax rates	89,614	(74,011)
Increase (decrease) in income taxes resulting from:		
Non-deductible crown royalties	316,187	24,580
Resource allowance	(342,568)	(12,513)

Tax rate adjustment	142,068	–
Other	(11,446)	(15,540)
Capital taxes	27,326	1,000
	\$221,181	\$ (76,484)

The Company has the following tax pools, which may be used to reduce taxable income in future years, limited to the applicable rates of utilization:

	<i>Rate of Utilization</i> %	<i>Amount</i>
Undepreciated capital costs	25-30	\$1,298,471
Canadian oil and gas property expenses	10	2,710,092
Canadian development expenses	30	1,123,988
Canadian exploration expenses	100	800,548
Finance expenses	20	79,844
		\$6,012,943

8. FINANCIAL INSTRUMENTS

Fair Values

The Company's financial instruments included in the balance sheets are comprised of accounts receivable and current liabilities, including the revolving demand loan. The fair values of these financial instruments approximate their carrying value due to the short-term maturity of those instruments. Borrowings under bank credit facilities are for short periods and are market based, thus, carrying values approximate fair value.

Credit Risk

Substantially all of the Company's accounts receivable are due from customers in the oil and gas industry and are subject to normal industry credit risks. The carrying value of accounts receivable reflects management's assessment of associated credit risks.

Interest Rate Risk

The Company's bank debt is comprised of a revolving loan and as such the Company is exposed to interest rate risk.

Commodity Price Risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices and exchange rates. The Company monitors and when appropriate uses derivative financial instruments to manage its exposure to these risks.

CORPORATE INFORMATION

Board of Directors

G.J. Drummond, Calgary, Alberta
G.F. Fink, Calgary, Alberta
C.R. Jonsson, Vancouver, British Columbia
F.W. Woodward, Calgary, Alberta

Officers

G.F. Fink – President and CEO
R.M. Jarock – Operations Manager and
Vice President, Corporate
Development
G.E. Schultz – Vice President, Finance,
and Secretary

Registrar & Transfer Agent

Olympia Trust Company, Calgary, Alberta

Auditors

Deloitte & Touche LLP, Calgary, Alberta

Solicitors

Parlee McLaws, Calgary, Alberta
Tupper, Jonsson & Yeadon, Vancouver, British
Columbia

Bankers

The Royal Bank of Canada, Calgary, Alberta

Stock Listing

TSX Venture Exchange
Trading symbol: NOS

Web Site

www.novitasenergy.com

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